Audit of the Future

June 5, 2018

Agenda

- Why should we care?
- What is different?
- How does it help?
- What do we need to enhance?
- How do we get started?
- What can you do now?

Guiding Principles:
Increase efficiency and use of technology wherever possible
Apply a fair and equitable model for audit selection

Introductions

Joseph Hammond (XDS)

– Tax administration and leadership guru
– 30+ years state tax administration executive
– Recently retired from Ohio Department of Taxation

James Brenza (XDS)

– Executive lead on Ohio's analytic solution
– 25+ years leading analytic solutions

Been there…
Done that…
Ready to do it again…

Why should we care?

- Businesses are advancing at a breakneck pace
- Automating and distributing work is key to survival
- Internal controls and processes become easily compromised
- Mobile technologies move work to remote locations
- Cloud-based solutions can propagate non-compliant practices

Your departments must maintain the integrity and efficacy of the audit process

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What is different?

- The arrival of the "digital enterprise"
  - Use technology as a competitive advantage
  - Reshape operations to change continuously
  - Eliminate paper-based processes to use digital records
- Rigorous process has been exchanged for agility
- Your Integrated Tax System is not going to make this change happen

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Is your organization matching their pace of change?

How does it impact us?

- Taxpayers do not have paper reports to fulfill your requests.
- Digital records are rarely even document images – they're just database rows
- Requesting working papers and reports is actually creating an unnecessary and unfriendly burden on the taxpayer.

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You can't move at the speed of government and keep up with the rapid pace of business.

How does it help?

- Greater access to review all records and data (rather than selected or "groomed" books)

- Increase thoroughness of the audit by avoiding samples

- Maintains the integrity of the audit process

- Increase controls on practitioner's influence on the audit

- Decrease burden on the taxpayer

- Improve efficiency
  - Decrease audit duration
  - Reduce manual labor
  - Reduce error risk of paper processing

What do we need to enhance?

- Identify and develop Computer Audit Specialists
  - Develop unique skills to examine electronic records
  - Increase familiarity with taxpayer systems
  - Become comfortable with data storage, recovery and integrity
  - Utilize analytic tools to detect anomalies and fraud
  - Adjust pay grades to attract, develop and retain talent

- Consider assistance to transform your team and processes
  - Process modifications
  - Leadership development
  - Skill building
  - Tool training

What do we need to enhance?

- Increase use of technology
  - Implement databases designed for analytics
  - Utilize automated analytics (e.g., anomaly detection)
  - Rapidly analyze _all_ data rather than relying on samples

- Contract for help when you can't hire it
  - Data scientists rarely align with public sector pay scales
  - State-of-the-art analytic engines require training and expertise
  - Have your team "coached" to a higher level of productivity

What is your role?

- Establish the vision

- Create a team to iteratively enhance the audit process

- Empower the team to make decisions for change

- Establish a leadership cadence to track and encourage their progress

What got you here, won't get your there.
~ Marshall Goldsmith

How do we get started?

- Align state code with digital records
  - Require access to <u>Machine Sensible Records</u>
  - Require retention of digital records
  - Require transaction-level detail be made available upon request

- Improve access to digital records
  - Provide access to on-site auditor at time of examination
  - Provide system documentation on retained records

- Reduce staff's focus on report requests and sampling
  - Stop requesting reports that don't exist
  - Request core system access
  - Conduct digital analysis for anomalies, gaps and fraud on **ALL** transactions

- Conduct a Proof-of-Concept to witness the difference
  - Low-cost audit selection based on all of your data
  - Sales suppression analysis without a reliance on sampling

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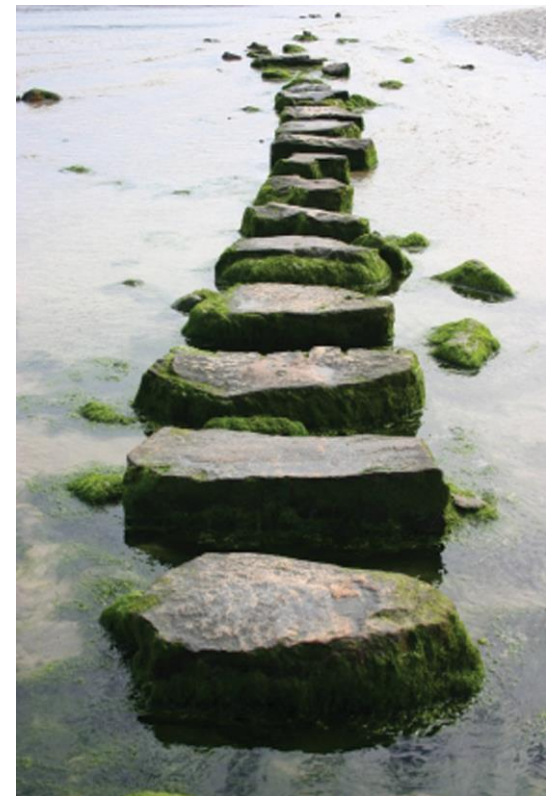
What can you do now?

As you prepare for the Audit of the Future:

- You can introduce your staff to the use of data and analytics
- You already have the data and does not require additional staff
- You can identify audit candidates
- You can address and stop Sales Suppression

XDS offers the opportunity to realize results in 90 days for fair, equitable, efficient and productive audit selection. With XDS as your partner, you will work with a team that has real-world experience with state tax auditing and data-driven audit selection

Our solution for Sales Suppression provides a detailed analysis that identifies specific transaction details to help your team close audits quickly and with confidence

Q&A

> ## If a picture is worth 1,000 words, a proof-of-concept is worth 1,000 meetings.

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